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DIRECTORATE OF INTELLIGENCE

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The Technology Issue in US-China Relations

During the past several months, Beijing has expressed growing impatience with controls on US technology and it has recently asserted that this issue is the most serious irritant in US-China relations next to Taiwan. This line has been pushed by senior officials--publicly and privately--at every opportunity. We believe the Chinese are motivated by a clear need to obtain advanced US technology, especially military related, for modernizing China and by domestic pressures to show proof of Washington's long-term commitment to Beijing. 25X1

Chinese Expectations and Tactics

China has sought advanced US technology since 1972, and its potential benefit for China's modernization program was a fundamental factor in Beijing's decision to seek improved relations with Washington. Current Chinese pressure on the issue, however, is greater than at any time during the past decade. 25X1

Deng Xiaoping and other leaders have repeatedly highlighted the discrepancy between US policy statements and performance on the technology issue. The Chinese now look back to July 1979, when Washington informed them of its decision to liberalize export controls and grant China most-favored-nation status, as the beginning of their problems with technology transfer. Six months later, Defense Secretary Brown announced the US decision to provide dual-use technology--previously denied--on a case-by-case basis. Beijing welcomed the broader access to US technology; 25X1

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and, in fact, viewed Brown's visit as the first step

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in US China military cooperation. They also considered the decision a clear signal that Washington wanted to improve the US-China relationship "to the detriment of the Soviet Union." 25X1

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Over the next 18 months, the number of approvals steadily increased, as the United States put China into a separate category for export licensing to distinguish it from the Soviet Union and to facilitate licensing efforts. But the Chinese continued to express dissatisfaction with what they still considered an overly restrictive policy--they pointed to "unkept promises" rather than the list of approvals. In June 1981, former Secretary of State Haig traveled to Beijing to inform Deng and other leaders of simplified procedures and further relaxations in US export controls on high technology.

The Chinese have consistently attacked US export restrictions in the context of US attitudes toward China. They have argued that Washington, having granted most-favored-nation status to China, should follow through and allow the Chinese total and free access to US advanced technology. Although they have acknowledged their separate licensing category, the Chinese have stressed that current restrictions indicate that the United States still treats China as a hostile country--like the Soviet Union. Indeed, even after Washington took steps to expedite licensing approvals last spring, Chinese leaders claimed to see no progress on the issue and no less rigidity in US restraints over technology transfer. 25X1 25X1

Most West European States and the Japanese tend to follow the US lead on technology transfer policy. Thus Beijing also views liberalized US export controls as key to full access to Western European and Japanese technology. 25X1

What China Wants

We believe that China's primary objective is to obtain "dual-use" US technology--to serve military as well as civilian modernization goals. This technology includes sophisticated computers, telecommunications equipment, and integrated circuit manufacturing technology--to name a few. In a number of cases where the United States has granted exceptions to export dual-use technology, we have evidence to show that the technology has been diverted for use in areas currently proscribed by US regulations. 25X1

Deng has often complained that "the United States has never given China any advanced technology" but the record and other comments by him and by other major senior officials make it clear that they know better. US firms have already made available a great deal of sophisticated technology for civilian application to China on a non-restricted basis. China, since 1979, however, has greatly cut back its imports of capital equipment and, in so

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doing that has been offered. Beijing, for instance, rejected an offer by which a US company would provide sophisticated secondary and tertiary recovery technology for China's biggest oilfield. US sales of highly advanced measuring and control instruments totaled only $41 million last year and $19 million in the first half of 1982. 25X1

In the case of offshore oil technology, however, Chinese regulations require foreign contractors to transfer to China all the technology that will be used off the China coast. US firms are concerned over the possible loss of proprietary techniques and equipment. 25X1

Pressures from the Foreign Policy and Military Establishment?

We do not believe Deng Xiaoping is in danger of losing the political initiative to his critics; nevertheless he may be feeling increased pressure from those leaders who are skeptical of the long-term value of the Beijing-Washington connection. China's recent moves to distance itself more from the United States and start a dialogue with the Soviet Union suggest a significant modification of the US-oriented policy line associated with Deng. Moreover, Chinese reluctance to pursue strategic cooperation with the United States since the communique on Taiwan arms sales suggests that Deng has become more sensitive to his domestic constituencies. 25X1

There is also mounting evidence that China's current campaign to acquire US technology is an outgrowth of a new, expanded effort to modernize China's military with Western assistance. 25X1

NORINCO--China's arms import organization--also has become markedly more active in shopping for Western weapons and technology over the past three months. The appointment of Zhang Aiping, a career military science and technology administrator, as the new Minister of Defense may also reflect a new priority on military modernization. 25X1

Deng Xiaoping, as well as others in the leadership who have been associated over the past three years with restraining investment in military modernization, may now be responding to pressures from the PLA for more resources. Several high-ranking PLA leaders have been particularly resistant to Deng's succession arrangements, and Deng may be increasingly willing to make policy concessions to the military in order to push through personnel changes vital to succession. In fact, this process apparently 25X1

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has bee experienced its first major reshuffling of senior appointments since 1975. 25X1

Outlook

Beijing can be expected to continue to play up export controls as a major political issue in US-China relations, emphasizing that it regards Washington's restrictive policy as undermining the expansion of bilateral ties. We believe that China's arguments on technology transfer are intentionally overdrawn as a tactic to push forward liberalization of US export controls. This tactic has been successful, in that the Chinese have received many items after complaining and have seen US restrictions consistently loosened since normalization. Thus, we expect the pressure to continue. 25X1

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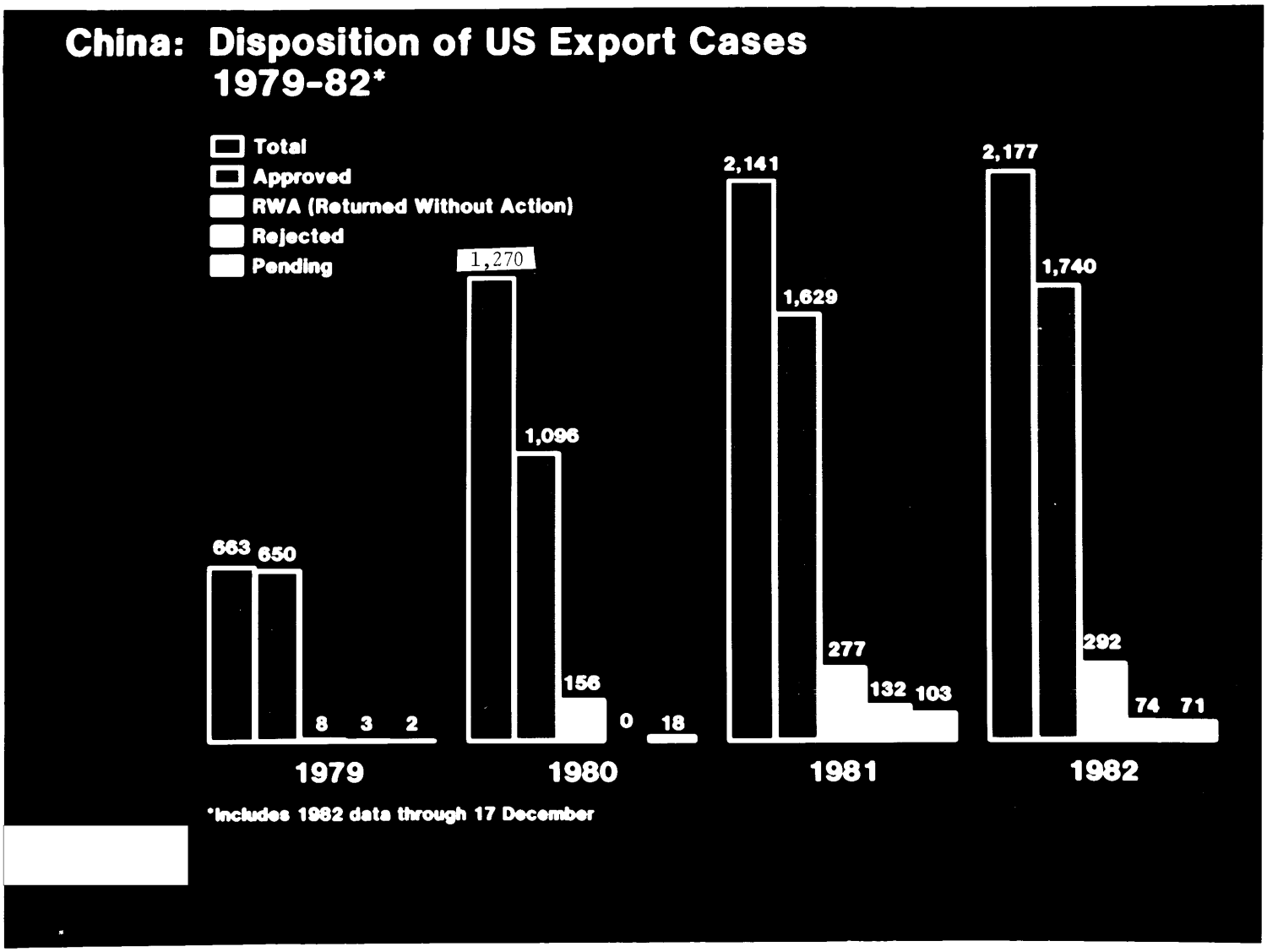

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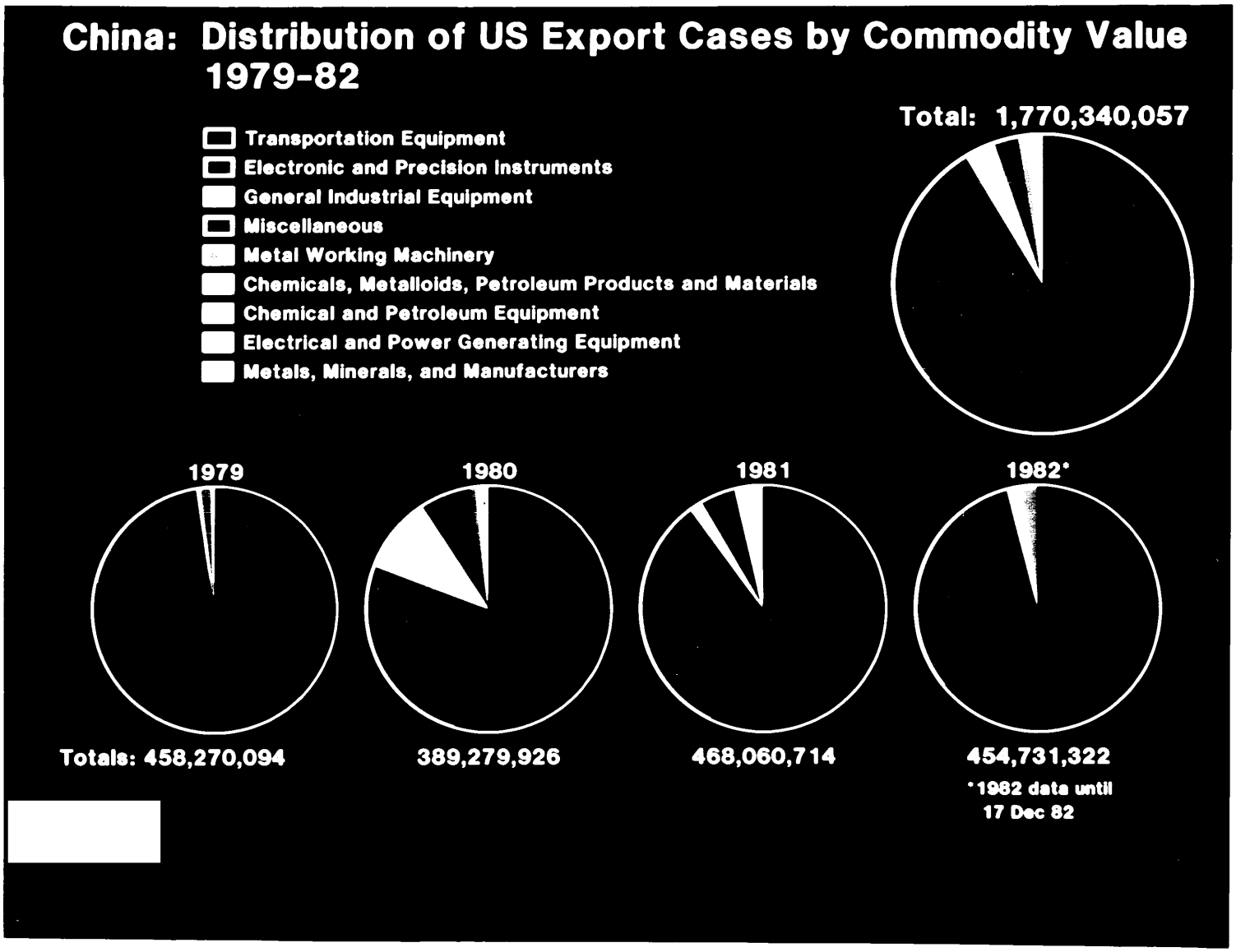
China: Distribution of US Export Cases by Commodity Value 1979-82



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